

## TURKEY<sup>1</sup>

- The income gap relative to most advanced OECD countries continues to narrow. Rising labour force participation and job creation, mostly in service sectors, have strongly improved labour utilisation.
- Income inequality diminishes despite limited redistribution through taxes and transfers. Broad-based job creation for the low-skilled, including in less advanced regions, has contributed to reduce absolute poverty but the share of income held by the poorest 20% still remains below the OECD average.
- Progress has been very limited on *Going for Growth* 2015 priorities, as the reforms intended in the 10th National Development Plan 2014-18 were not implemented amid four national elections over 2014-15. An ambitious Action Plan which included several reform priorities was launched in January 2016. Temporary work agency services started to be liberalised with a new law adopted in May 2016.
- Key education, labour and product market reforms are necessary to catch-up with good OECD regulatory practices. Upskilling the labour force and easing the shift of low-skilled workers from low-productivity informal to high-productivity formal firms would significantly boost average labour productivity, human capital formation and social inclusion.
- Progress with the transparency of environmental externalities and the level-playing enforcement of environmental regulations across all manufacturing, services and agricultural activities would help make growth greener.

### Going for Growth 2017 priorities

**Improve educational achievement at all levels.** Student enrolment rates are increasing at all levels, but there is ample scope to improve quality and equity.

**Actions taken:** Several quality improvement projects have been implemented, in particular in vocational education. Between 2010 and 2016, 972 ordinary high schools were upgraded to higher quality Anatolian High Schools and 579 high schools to Vocational and Technical Schools. The autonomy of schools and the transparency of their performance remain very limited.

**Recommendations:** Reduce the wide quality gaps persisting among schools, school types and universities, by granting them more autonomy and resources per student, against greater performance accountability. Further develop pre-school education. Continue to strengthen vocational education in co-operation with the business sector and evaluate the outcomes of the many recent initiatives in this area.

**Reduce the cost of employment of the low-skilled.** High minimum costs of labour for formal employers discourage the hiring of the low-skilled in the formal sector.

**Actions taken:** Following an election promise, the minimum wage, already the highest in the OECD as a share of the median wage, was increased by 30% in January 2016. The government is bearing up to 40% of the cost increase for employers during the first year. In December 2015, temporary social security contribution cuts for female and young workers were extended.

**Recommendations:** Keep the growth of the official minimum wage below average productivity gains for a while. Allow regional differentiation of minimum wages through local consultations between government, employer and employee representatives. Grant

1. Based on the revised National Accounts series as of 31/01/17.

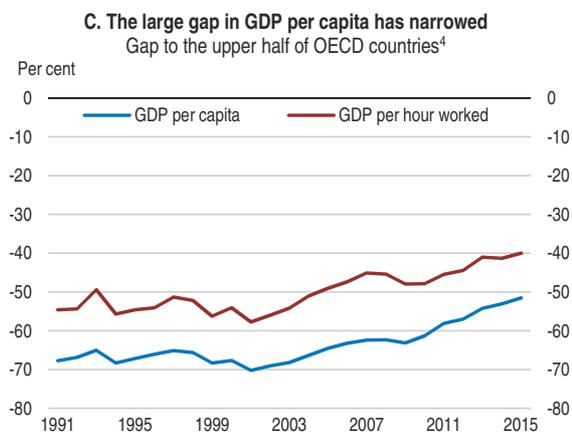
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## Growth performance and inequality indicators

A. Growth		
Average annual growth rates (%)	2003-09	2009-15
GDP per capita	3.1	6.0
Labour utilisation	-0.1	2.4
of which: Labour force participation rate	0.5	1.8
Employment rate <sup>1</sup>	-0.6	0.5
Employment coefficient <sup>2</sup>	0.0	0.0
Labour productivity	2.8	2.9
Dependency ratio	0.4	0.7

B. Inequality		
	Level	Annual variation (percentage points)
	2013	2007-13
Gini coefficient <sup>3</sup>	39.3 (31.7)*	-0.2 (0)*
Share of national disposable income held by the poorest 20%	6.1 (7.7)*	0 (0)*

\* OECD average



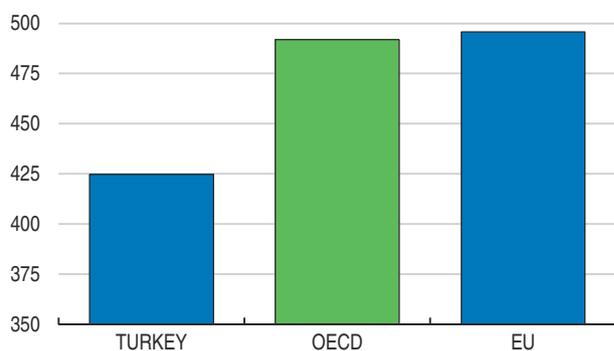
- The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice-versa.
- This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
- The Gini index measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality.
- Percentage gap with respect to the weighted average using population weights of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2010 PPPs).

Source: Panel A: OECD, *Economic Outlook No. 100 Database*; Panel B: OECD, *Income Distribution Database*; Panel C: OECD, *National Accounts and Productivity Databases*.

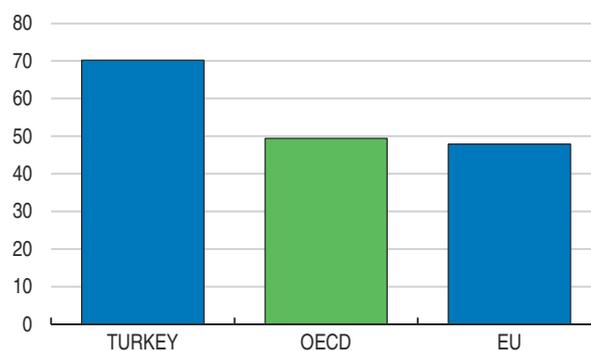
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## Policy indicators

**A. Student performance is lagging**  
Average of PISA scores in mathematics, science and reading, 2015



**B. The minimum cost of labour is comparatively high**  
Percentage of minimum cost of labour to cost of median worker,<sup>1</sup> 2015



- The cost of labour is the sum of the wage level and the corresponding social security contributions paid by employers.

Source: Panel A: OECD, *PISA Database*; Panel B: OECD, *Employment Outlook and Taxing wages Databases*.

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further social contribution cuts for low-skilled workers in the entire country, financing them by widening the tax base.

**Reform employment protection legislation and strengthen active labour market policies.** Existing employment protection rules for permanent and temporary workers nurture a large informal sector.

**Actions taken:** Temporary work agency contracts were partly liberalised in 2016. Transition to portable severance saving accounts, as scheduled in the 2016 Government Action Plan, was delayed. Participation in the *on-the-job* training schemes financed by the Unemployment Insurance Fund increased strongly.

**Recommendations:** Implement the labour market reforms programmed in the 2016 Action Plan of structural reforms. Replace the costly severance payment regime (available only for a minority of formal sector workers). Liberalise fixed-term contracts. Improve the social safety net for displaced workers by making public support for retraining and job search more reliable for those out-of-work.

**Improve competition in network industries and agriculture.** Obstacles to competition in network sectors and in agricultural markets undermine productivity growth.

**Actions taken:** Eligible consumer thresholds for access to competitive purchasing were further reduced in 2015 for gas, and in 2015 and 2016 for electricity. Implementation of regulations for the opening of rail freight transportation to competition are being completed.

**Recommendations:** Identify the remaining obstacles to the opening of network sectors to competition, with the help of an OECD Competition Assessment Review. Delink agricultural support from production and shift its composition away from price measures towards direct support.

**Encourage formal work at older ages.** The average retirement age of formal sector workers is around 50. The phasing in of pension reforms is very gradual, creating disincentives to formal work at older ages.

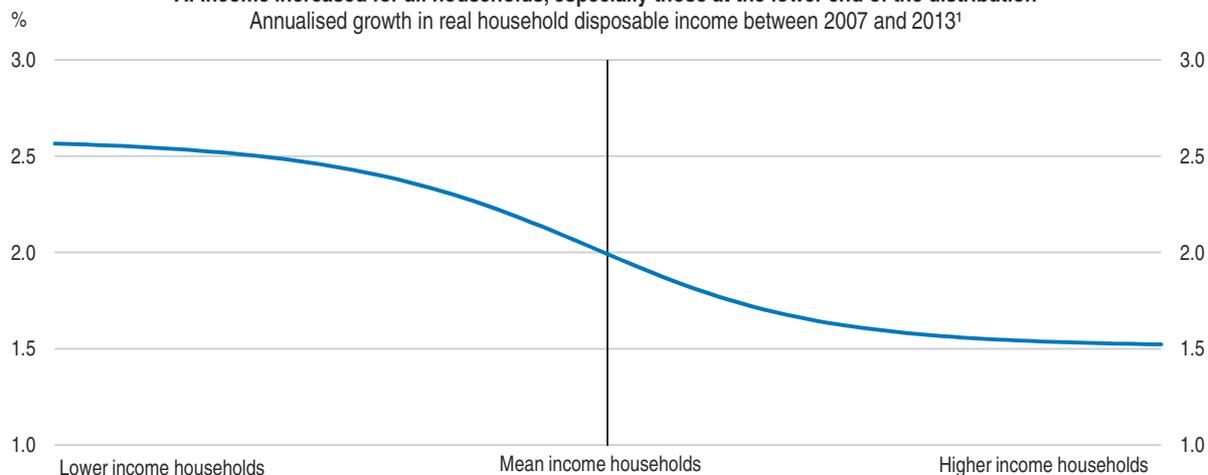
**Actions taken:** The implementation of the 2013 Strategy to Fight the Informal Economy had a very limited impact on informal work at older ages. The 2016-18 Medium-Term Economic Programme reiterated the objectives of this strategy.

**Recommendations:** Make continuing work in the formal sector after official retirement age more attractive and actuarially neutral. Speed up increases in the statutory retirement age. Establish a health insurance contribution for young retirees.

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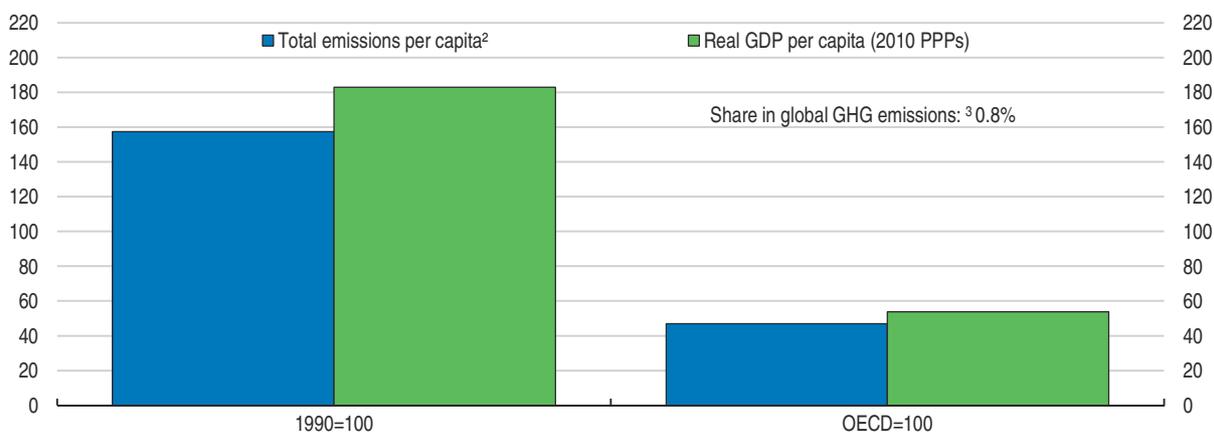
## Beyond GDP per capita: Other policy objectives

## A. Income increased for all households, especially those at the lower end of the distribution

Annualised growth in real household disposable income between 2007 and 2013<sup>1</sup>

## B. Emissions per capita remain below OECD average

Average 2010-14



1. The data show average annual growth rates in disposable income (i.e. income after tax and transfers) across the distribution and refer to the period between 2007 and 2013. Disposable incomes cover the full population. Income data are expressed in constant prices (OECD base year 2010).
2. Total GHG emissions including LULUCF in CO<sub>2</sub> equivalents (UNFCCC). The OECD average (excluding Israel and Korea) is calculated according to the same definition.
3. Share in world GHG emissions is calculated using International Energy Agency (IEA) 2010 data.

Source: Panel A: OECD, *Income Distribution Database*; Panel B: OECD, *National Accounts and Energy (IEA) Databases*, *United Nations Framework Convention on Climate Change (UNFCCC) Database*.

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